entry in only 41% of the simulations performed by the model, while the NSVLTNHH wire center (a wire center serving slightly more than 5,000, primarily residential lines) is profitable for CLEC entry in only one of the 250 simulations performed. These results are shown in Exhibit 4 to this declaration.

103. The model results illustrate that CLEC profitability is highly sensitive to several key input assumptions. Among these are the assumed rate of customer churn, the costs of acquiring customers (the marketing, advertising and selling costs that must be incurred to develop a customer base), the cost to the CLEC of converting customers from the ILEC's service to the CLEC's service, and the price response of the ILEC to CLEC market entry.

104. I conclude from the results of these model simulation runs, along with recent events in the marketplace, that entry by switch-based CLECs in the mass market is even less favorable than indicated by a single run of the model, such as the one presented for Pennsylvania, would indicate. A prospective CLEC entrant will be very reluctant to commit capital to a market if it faces a substantial probability of losing money on the venture. The range of inputs used in the model are relatively conservative and if actual conditions are less favorable than the "best guesses" used in the single model run, then the CLEC would stand to lose substantial amounts of money, even in the few wire centers where expected net revenue was shown to be positive.

105. This point can be illustrated by considering the importance of a single input assumption in the model. The "best guess" assumption of the model is that the CLEC's internal cost of handling a hot cut is $10.00 per customer. If, instead, hot cuts are not possible, or require substantial intervention, this could turn out to be a substantial underestimate. For example, if the per customer cutover costs were $25.00 instead of $10.00, this would add $1.00 per month to the cost of serving a typical customer, with a 15 month service life.

106. Among the recent developments in the market that lead me to believe that the model assumption are overly optimistic is the increased supply and penetration of VOIP service. Although VOIP has not replaced traditional voice services for most customers and does not effectively constrain the ILECs' market power, there is every indication that the industry is moving in this direction. The implication of this for CLECs that are considering entering the market as switch-based providers is that any new investment in circuit-switched based technology will be relatively short-lived. The model now uses an expected life for circuit equipment (e.g. Digital Loop Carrier equipment) of 10 years. If this equipment is made obsolete in a shorter period of time, the effective per month cost to a CLEC will be higher, and the prospect for competitive entry will be even bleaker.

107. For these reasons, I recommend that the Commission examine this model (or a similar tool) to judge whether entry by a switch-based CLEC makes economic sense. If the Commission finds, as my analysis shows, that entry is not likely to

be profitable under a wide range of circumstances in virtually all markets, then it must conclude that CLECs are impaired without access to UNE switching.

108. The model also shows that CLEC entry is not deterred or foreclosed by universal service subsidies in the large markets where the ILECs sought a non-impairment finding for UNE switching.[27] Actual revenue for the bundle of service purchased by the typical residential subscriber exceeds the incumbent's cost of serving the customer. Therefore, the ILEC is not depending on a subsidy from other customers or services to maintain the existing levels of retail residential revenues. A CLEC cannot enter the market profitably, however, only because it faces a significant cost disadvantage relative to the incumbent, *e.g.,* for collocation and transport. If the CLEC did not face this cost disadvantage, it could enter and compete against the ILEC. Indeed, the intense competition in the mass market where CLECs have had access to UNE-P on reasonable terms and conditions, demonstrates that retail rates in most of the country, for most customers, can stand on their own without a subsidy.

V. CONCLUSIONS

109. Evidence developed in state proceedings following the Commission's issuance of the Triennial Review Order, including the results of potential deployment models

[27] In some rural areas served by the RBOCs, the cost of serving mass market customers will exceed average per-customer revenues. CLECs are likely to be impaired in these areas for a variety of reasons, including cost disadvantages relative to the ILECs. These cost disadvantages are likely even greater than in urban areas, because of the severe diseconomies of scale associated with serving only a small fraction of the already small number of customers in an ILEC wire center. Therefore, CLEC entry with self-supplied switching into these areas is even less likely than in urban areas, and impairment exists.

presented by parties to those proceedings, teaches that CLEC profitability is quite sensitive both to the underlying characteristics of individual markets, as well as input assumptions that are necessarily uncertain. Many of the most important factors affecting CLEC profitability also are subject to the ability of both CLECs and ILECs to effectively manage batch "hot cut" transitions, the service quality available to CLECs using loops that may not be, in all cases, equal in capability to those used by the ILECs, and the response of the ILECs to CLEC market entry using CLEC-provisioned switching, and the resulting post-entry equilibrium price.

110. The evidence summarized here shows that markets must be defined with sufficient granularity that factors affecting CLEC entry decision are not obscured. The incumbent LEC wire center is the only geographic market definition that provides this level of detail.

111. Given the high risk that entry using self-provisioned switching will not be successful, CLECs will be unlikely to attempt this form of entry unless their expected return on invested capital is high. This is likely to occur in few, if any, wire center markets nationwide. Therefore, in the absence of unbundled local switching, many areas could be left without competitive alternatives to the ILEC's local exchange service.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on October 4, 2004.

Michael Pelcovits

PELCOVITS DECLARATION

EXHIBIT 1

RESUME OF MICHAEL PELCOVITS

Michael D. Pelcovits

MiCRA
1155 Connecticut Avenue, N.W., Suite 900
Washington, D.C. 20036
Phone: 202-467-2513
Fax: 202-296-1915
Email: mp@micradc.com

PROFESSIONAL EXPERIENCE

October 2002 – Present: Principal, MiCRA (Microeconomic Consulting & Research Associates, Inc.)

Recent Assignments:

- Developed a model demonstrating the cost faced by a competitive local exchange carrier entering local exchange markets. The model was submitted to the Federal Communications Commission in its Triennial Review of the 1996 Telecommunications Act
- Testified on intrastate access charges before the Connecticut Department of Public Utilities and the Pennsylvania Public Utility Commission
- Analyzed the market for termination of calling on mobile phones in the UK and Netherlands markets

1988 – September 2002: WorldCom Inc. (MCI Communications, prior to merger)

1998 - 2002*: Vice President and Chief Economist*

Major Responsibilities:

- Supervised professional staff of economists, engineers, and policy analysts, with full responsibility for departmental budget, personnel, and quality of output.
- Directed economic analysis of policy and regulatory matters before federal, state, foreign, and international government agencies, legislative bodies, and courts.
- Advocated corporate policy positions before domestic and foreign governmental bodies, spoke at industry forums, and participated in briefings and interviews with the press.
- Recruited and directed independent, outside consultants (academic and private sector) to testify in regulatory and antitrust proceedings.
- Advised senior corporate management on public policy issues.

1996 – 1998: Executive Director

- Directed the Company's strategy, advocacy, and representation on costing and pricing issues in formal proceedings implementing the Telecommunications Act of 1996.
- Responsible for development, management, and allocation of $10 million budget for outside consultants.

1992 – 1996: Director

- Supervised professional staff responsible for regulatory filings at the Federal Communications Commission on pricing, costing, and tariff issues.
- Represented MCI and long distance industry association at Congressional forums, committee staff meetings, and industry negotiations prior to passage of the Telecommunications Act of 1996.

1988 – 1992: Senior Policy Adviser

- Provided economic analysis of local and long distance telecommunications industries for regulatory and legal filings.
- Prepared economic analysis in support of advocacy on Capitol Hill. Prepared senior corporate management for testimony before Congressional Committees.

1982 – 1988: Vice President and Treasurer, Cornell, Pelcovits & Brenner Economists Inc.

- One of three managing principals who founded and directed an economic consulting firm, specializing in telecommunications, broadcasting, and antitrust economics. Client engagements included testifying over twenty times before state public utility commissions on pricing, costing, and competitive entry issues; analysis of cost and demand studies and their application to tariff design; and analysis of antitrust issues in transportation markets, among other projects.
- Served as Treasurer of the corporation managing the finances and supervising the accounting, tax, and benefits plans.

1981 – 1982: Senior Economist, Owen, Cornell, Greenhalgh & Myslinski Economists Inc.

- Provided economic consulting on telecommunications and environmental issues. Major client engagements included copyright issues for the Sony Corporation and water pollution issues for the American Iron and Steel Institute.

1979 – 1981: Senior Economist, Federal Communications Commission, Office of Plans and Policy

- Provided policy analysis of domestic and international common carrier and cable television issues.
- Presented recommendations to Office and Bureau Chiefs, Commissioner offices, and to Commissioners in open Commission meetings.

1978 – 1979: Industry Economist, Bureau of International Aviation, Civil Aeronautics Board

- Provided economic analysis of industry structure, international routes and fares for Board rulemakings and adjudication.
- Testified before administrative law judge in two cases recommending the opening of international airline markets to competition.

1976 – 1978: Assistant Professor, Department of Economics, University of Maryland, College Park

- Taught undergraduate and graduate courses in International Economics and Microeconomics.
- Conducted and supervised research in International Economics

1975 – 1976: Teaching Assistant, Department of Economics, M.I.T.

- Taught separate section in Principles of Economics and assisted in teaching Econometrics

1974 Instructor, Tufts University, Department of Economics

- Taught undergraduate course in Comparative Economic Systems

EDUCATION

Ph.D. (Economics), Massachusetts Institute of Technology, 1976
Dissertation title: "The Non-Equivalence of Tariffs and Quotas Under Uncertainty"

B.A. (Economics), *summa cum laude,* University of Rochester, 1972

AWARDS

National Science Foundation Graduate Fellowship, 1972 – 1975
Phi Beta Kappa, 1972
Isaac Sherman Graduate Fellowship, 1972 (University of Rochester)
John Dows Mairs Prize in Economics, 1971 (University of Rochester)

PUBLICATIONS

"The WorldCom-Sprint Merger" in John Kwoka, Jr. and Lawrence J. White, editors. The Antitrust Revolution, The Role of Economics, 4th Edition (Oxford University Press), 2003.

"Economics of the Internet," (with Vinton Cerf), in Gary Madden and Scott Savage, editors, The International Handbook On Emerging Telecommunications Networks (Edward Elgar), 2003.

"Application of Real Options Theory to TELRIC Models: Real Trouble or Red Herring" in James Alleman and Eli Noam, editors, The New Investment Theory of Real Options and its Implications for Telecommunications Economics, (The Netherlands, Kluwer Academic Publishers, 1999).

"The Promise of Internet Access over Cable TV: Should the government force open access requirements?" (with Richard Whitt), CCH Power and Telecom Law, Vol. 2, No. 7, November/December 1999.

"Toward Competition in Phone Service: A Legacy of Regulatory Failure," (with Nina W. Cornell and Steven R. Brenner), Regulation, July/August 1983.

"Access Charges, Costs, and Subsidies: The Effect of Long Distance Competition on Local Rates," (with Nina W. Cornell), in Eli Noam, editor, Telecommunications Regulation Today and Tomorrow, (New York: Harcourt Brace Jovanovich, 1983).

"The Equivalence of Quotas and Buffer Stocks as Alternative Stabilization Policies," Journal of International Economics, May 1979.

"Revised Estimates U.S. Tax Revenue (with Jagdish Bhagwati), in Bhagwati and Partington editors, Taxing the Brain Drain, (North Holland, 1976).

"Quotas Versus Tariffs," Journal of International Economics, November, 1976.

OTHER PROFESSIONAL ACTIVITIES

Speaker and Panelist (selected examples):

National Association of State Utility Consumer Advocates, "Telco Structural Separations, Costs & Benefits," June 19, 2001

LeBoeuf, Lamb, Greene & MacRae, "Telecom Restructuring: The Road to Profitability -- Is there a Map?" June 11, 2001

Columbia University, Graduate School of Business, Institute for Tele-Information, "European Lessons in Liberalization: The German Experience in Telecommunications & Internet Applications," February 16, 1999

Massachusetts Institute of Technology, "Economics of the Internet: Lessons from Regulation of Telephony," April 30, 1998

National Association of State Utility Consumer Advocates, "The Telecommunications Act Two Years Later," February 10, 1998

Columbia University, Graduate School of Business, Institute for Tele-Information, "From the Blueprint to Reality: A Look Into the Second Year of the Telecommunications Act of 1996," April 10, 1997

Federal Communications Commission, Federal State Joint Board on Separations, February 26, 1997

Alliance for Public Technology, "Technologies of Freedom: Linking the Home to the Highway," February 21, 1997

Federal Communications Commission, Federal-State Joint Board on Universal Service, June 5, 1996

Columbia University, Graduate School of Business, Institute for Tele-Information, "Telecommunications Act of 1996: The Morning After," February 6, 1996

New York Law School, Communications Media Center, "Universal Service in Context: A Multidisciplinary Perspective," December 6, 1995

Kansas University, "Stakeholders Symposium on Telecommunications," November 2, 1995

California Foundation of the Environment and the Economy, "Roundtable on Telecommunications Policy, October 27, 1994

Guest lecturer in graduate and undergraduate courses at:

New York University, Stern School of Business
Georgetown University, McDonnough School of Business
George Washington University
Johns Hopkins University
University of Maryland
American University

RECENT TESTIMONIES

State of Connecticut, Department of Public Utility Control, DPUC Investigation of Intrastate Access Charges, Docket No. 02-05-17.

State of Connecticut, Department of Public Utility Control, Application of Southern New England Telephone Company for Approval to Reclassify Certain Private Line Services from Noncompetitive to Competitive Category, Docket No. 03-02-17.

Pennsylvania Public Utility Commission, AT&T Communications of Pennsylvania, Inc. v. Verizon North, Inc. Docket Number C-20027195.

Pennsylvania Public Utility Commission, Investigation into the Obligations of Incumbent Local Exchange Carriers to Unbundle Network Elements, Docket No. I-00030099.

Pennsylvania Public Utility Commission, Generic Investigation in re: Impact On Local Carrier Compensation if A Competitive Local Exchange Carrier Defines Local Calling Areas Differently Than the Incumbent Local Exchange Carrier's Local Calling Areas but Consistent With Established Commission Precedent, Docket No. I-00030096.

PELCOVITS DECLARATION

EXHIBIT 3

PENNSYLVANIA MODEL RESULTS

Monthly Recurring Costs Per Line

CLLI Code	State	Zone	MSA	Avg Cost per Line, Best Case
ALTWPAAL	PA	3	ABE	($7.83)
ALTWPAMT	PA	3	ABE	($7.80)
BHLHPABE	PA	3	ABE	($6.36)
CTSQPACT	PA	3	ABE	($10.87)
ESTNPAEA	PA	3	ABE	($7.01)
KHVLPAKU	PA	3	ABE	($4.95)
CPHLPACH	PA	3	HC	($5.85)
ENOLPAEN	PA	3	HC	($6.07)
FSCKPAFC	PA	3	HC	($9.91)
HRBGPAHA	PA	3	HC	($5.37)
MBRGPAME	PA	3	HC	($6.52)
NCLDPANC	PA	3	HC	($8.03)
PXTGPAPG	PA	3	HC	($8.00)
PXTNPAPA	PA	3	HC	($4.48)
SLTNPAST	PA	3	HC	($8.08)
EPBGPAEP	PA	3	L	($6.53)
LDVLPAES	PA	3	L	($6.82)
LNCSPALA	PA	3	L	($6.21)
WLSTPAWS	PA	3	L	($6.97)
LBNNPAES	PA	3	LB	($7.60)
PITBPAAL	PA	1	P	($3.92)
PITBPADT	PA	1	P	$0.09
PITBPANS	PA	1	P	($2.33)
PITBPAOK	PA	1	P	($2.42)
PITBPASQ	PA	1	P	($3.78)
BLLVPABE	PA	2	P	($5.99)
BRDDPABR	PA	2	P	($6.70)
CRAFPACR	PA	2	P	($6.35)
DRMTPADO	PA	2	P	($3.32)
HMSTPAHO	PA	2	P	($5.35)
MCRKPAMR	PA	2	P	($6.54)
MLVAPAMI	PA	2	P	($7.78)
PITBPACA	PA	2	P	($4.64)
PITBPAEL	PA	2	P	($1.84)
SHSAPASH	PA	2	P	($3.77)
WKBGPAWI	PA	2	P	($1.40)
WSVWPAWI	PA	2	P	($7.28)

AMBRPAAM	PA	3	P	($10.89)
BADNPABA	PA	3	P	($9.69)
BGVLPABR	PA	3	P	($7.95)
BTPKPABP	PA	3	P	($4.27)
CARNPACA	PA	3	P	($8.10)
CLRTPACL	PA	3	P	($7.70)
CRPLPACO	PA	3	P	($7.67)
DRVLPADO	PA	3	P	($8.66)
ELZTPAET	PA	3	P	($8.77)
GLNSPAGL	PA	3	P	($6.01)
GNBGPAGR	PA	3	P	($8.39)
GPIAPAMT	PA	3	P	($14.93)
IRWNPAIR	PA	3	P	($7.80)
JNNTPAJE	PA	3	P	($9.71)
MCMRPAMC	PA	3	P	($5.53)
MCPTPAMK	PA	3	P	($8.37)
MONSPAMC	PA	3	P	($9.31)
MOVLPAMO	PA	3	P	($6.41)
NWKNPANK	PA	3	P	($7.56)
OKMTPAOA	PA	3	P	($8.89)
PEHLPAPH	PA	3	P	($6.19)
PLHSPAPH	PA	3	P	($7.19)
PYVLPAPE	PA	3	P	($5.13)
RBTPPART	PA	3	P	($6.96)
SPDLPASP	PA	3	P	($9.86)
SWKYPASE	PA	3	P	($10.51)
TRCKPATC	PA	3	P	($7.40)
WMFLPAWM	PA	3	P	($7.39)
PHLAPABA	PA	1	PCW	$1.80
PHLAPADE	PA	1	PCW	($1.65)
PHLAPALO	PA	1	PCW	($4.64)
PHLAPAMK	PA	1	PCW	($0.83)
PHLAPAPE	PA	1	PCW	($1.04)
PHLAPAPO	PA	1	PCW	$2.29
PHLAPARE	PA	1	PCW	($5.77)
PHLAPACH	PA	2	PCW	($0.01)
PHLAPADB	PA	2	PCW	($1.26)
PHLAPAEV	PA	2	PCW	($1.04)
PHLAPAEW	PA	2	PCW	($3.94)
PHLAPAGE	PA	2	PCW	$0.35
PHLAPAIV	PA	2	PCW	($4.52)
PHLAPAJE	PA	2	PCW	($5.21)
PHLAPAKR	PA	2	PCW	($3.64)
PHLAPAMY	PA	2	PCW	($5.45)
PHLAPAOR	PA	2	PCW	($4.02)
PHLAPAPI	PA	2	PCW	($4.77)
PHLAPASA	PA	2	PCW	($2.09)
PHLAPASH	PA	2	PCW	$1.75
PHLAPATR	PA	2	PCW	($0.84)
PHLAPAWV	PA	2	PCW	$0.30

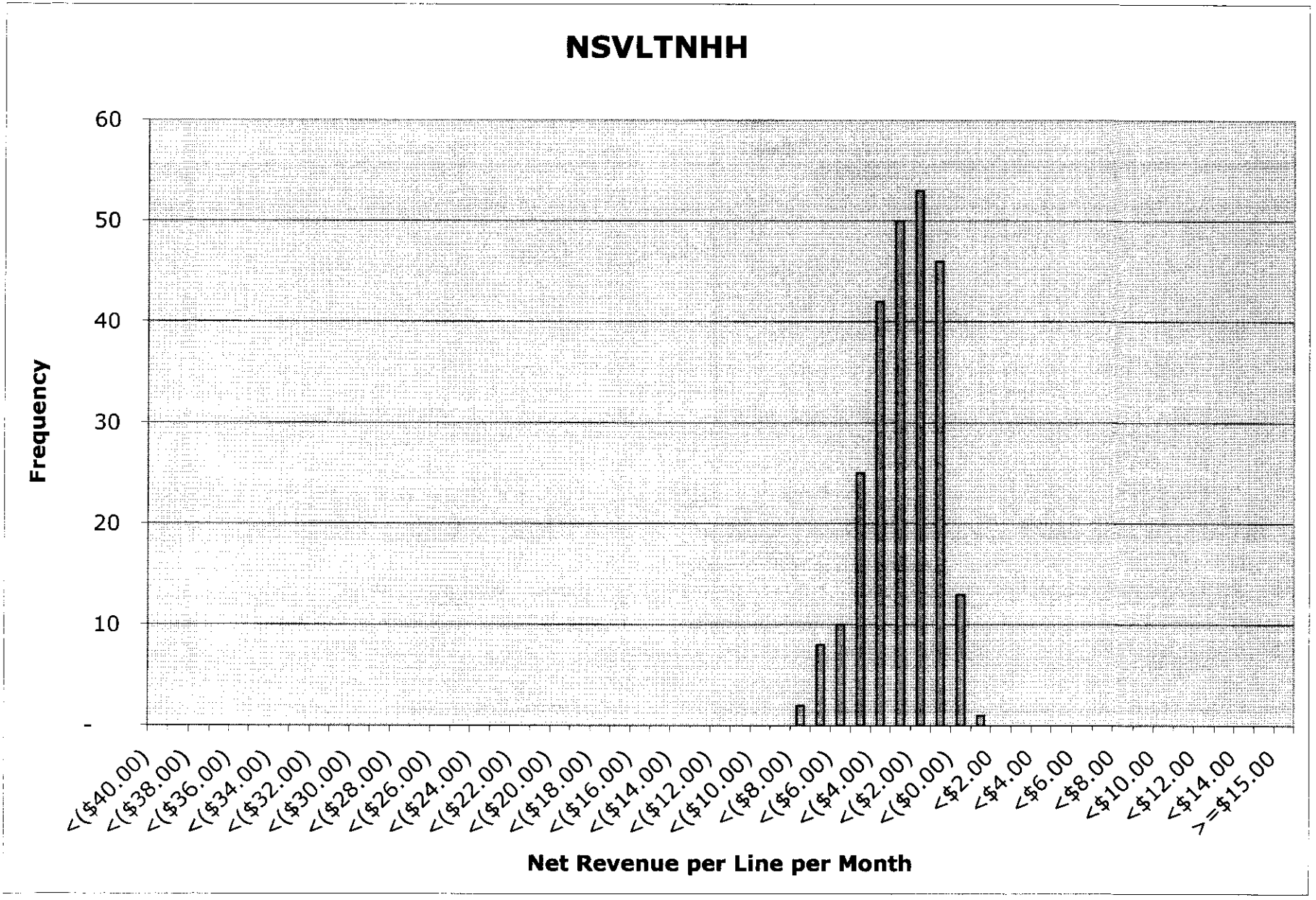
AMBLPAAM	PA	3	PCW	($3.55)
ARMRPAAR	PA	3	PCW	($2.29)
BCYNPABC	PA	3	PCW	$0.04
BRSTPABR	PA	3	PCW	($7.96)
BRYMPABM	PA	3	PCW	($0.81)
BTHYPABH	PA	3	PCW	($2.91)
CGVLPACL	PA	3	PCW	($6.15)
CHESPACA	PA	3	PCW	($4.57)
CHESPACB	PA	3	PCW	($5.18)
CHTTPACT	PA	3	PCW	($4.45)
CHVLPACH	PA	3	PCW	($4.74)
CNSHPACN	PA	3	PCW	($5.96)
DWTWPADT	PA	3	PCW	($5.76)
DYTWPADB	PA	3	PCW	($5.82)
EDTNPAED	PA	3	PCW	($5.85)
EXTNPAEX	PA	3	PCW	($5.61)
GLLDPAGN	PA	3	PCW	($5.29)
HRLVPAHV	PA	3	PCW	($8.26)
HTBOPAHB	PA	3	PCW	($6.24)
JENKPAJK	PA	3	PCW	($4.09)
KGPRPAKP	PA	3	PCW	($5.39)
KNSQPAKS	PA	3	PCW	($6.52)
KRLNPAKL	PA	3	PCW	($4.97)
LANGPALA	PA	3	PCW	($4.99)
LARCPALM	PA	3	PCW	($3.91)
LNDLPALD	PA	3	PCW	($4.62)
LNLXPALN	PA	3	PCW	($6.96)
LNSDPALD	PA	3	PCW	($5.01)
MEDIPAME	PA	3	PCW	($5.23)
MRSLPAMV	PA	3	PCW	($7.27)
NRTWPANR	PA	3	PCW	($5.44)
NWLSPANW	PA	3	PCW	($4.18)
NWTWPANV	PA	3	PCW	($2.96)
PAOLPAPA	PA	3	PCW	($1.37)
PRFDPAPF	PA	3	PCW	($9.69)
PTTWPAPT	PA	3	PCW	($5.94)
PXVLPAPV	PA	3	PCW	($5.08)
RDPKPARP	PA	3	PCW	($11.13)
RYFRPARF	PA	3	PCW	($6.57)
SDTNPASD	PA	3	PCW	($6.85)
SPFDPASF	PA	3	PCW	($4.95)
TRPRPATR	PA	3	PCW	($5.55)
TULYPATU	PA	3	PCW	($4.68)
WAYNPAWY	PA	3	PCW	($0.34)
WCHSPAWC	PA	3	PCW	($1.86)
WGTNPAWF	PA	3	PCW	($4.60)
WLGRPAWC	PA	3	PCW	($5.22)
YRDLPAYL	PA	3	PCW	($2.06)
LRDLPALB	PA	3	R	($9.09)
RDNGPARE	PA	3	R	($8.93)

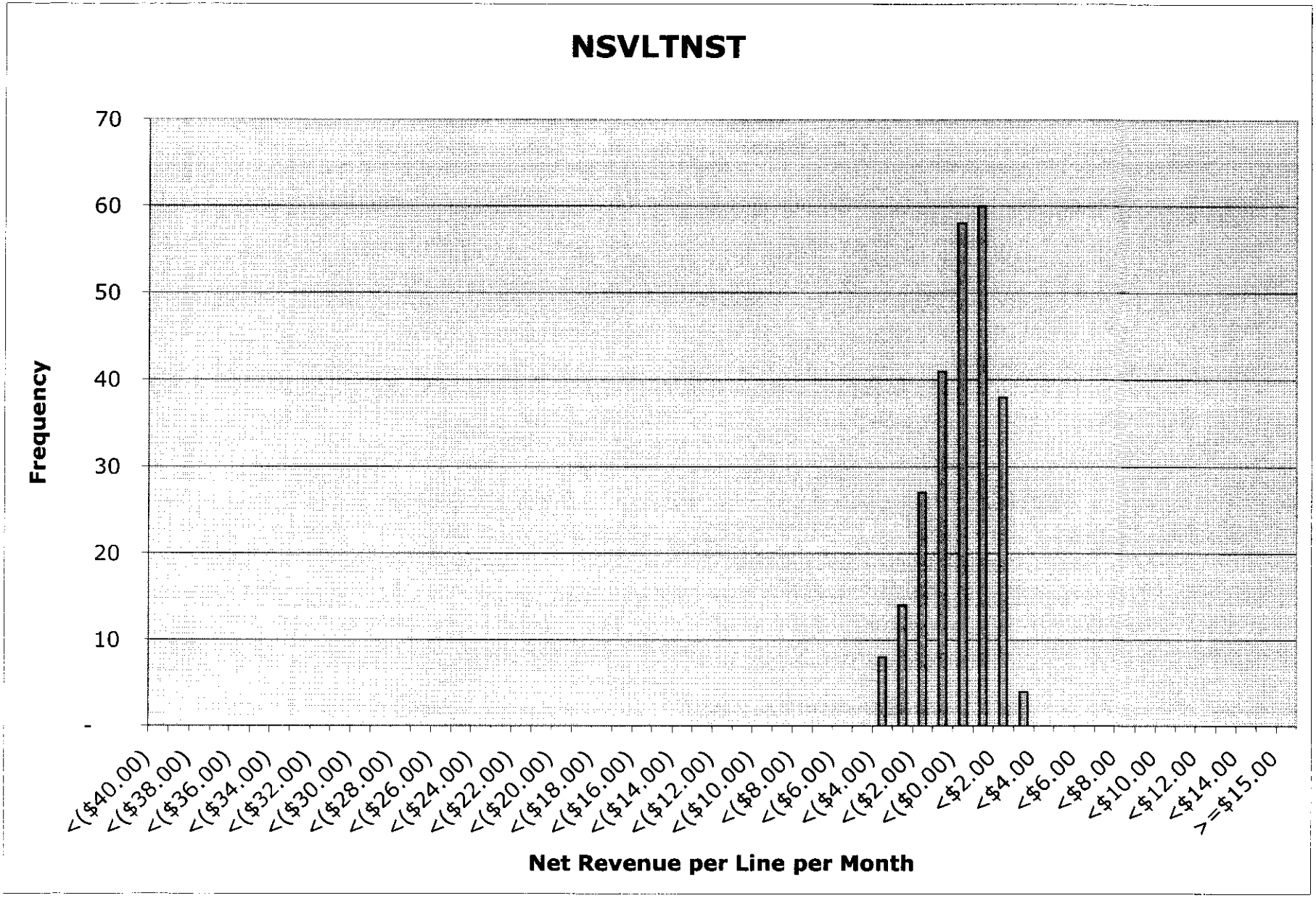
SHLNPASH	PA	3	R	($6.46)
SLWBPASL	PA	3	R	($6.94)
SNSPPASS	PA	3	R	($5.90)
BRCKPAES	PA	3	SWB	($7.65)
HZTNPAHZ	PA	3	SWB	($8.08)
KGTNPAES	PA	3	SWB	($7.58)
PTTNPAPI	PA	3	SWB	($7.91)
SCTNPASC	PA	3	SWB	($8.07)
TAYLPATA	PA	3	SWB	($8.75)
WLBRPAWB	PA	3	SWB	($8.65)
WYNGPAWI	PA	3	SWB	($8.70)

PELCOVITS DECLARATION

EXHIBIT 4

TENNESSEE MODEL SIMULATION RESULTS


NSVLTNHH
Frequency
60
50
40
30
20
10
-
<($40.00)
<($38.00)
<($36.00)
<($34.00)
<($32.00)
<($30.00)
<($28.00)
<($26.00)
<($24.00)
<($22.00)
<($20.00)
<($18.00)
<($16.00)
<($14.00)
<($12.00)
<($10.00)
<($8.00)
<($6.00)
<($4.00)
<($2.00)
<($0.00)
<$2.00
<$4.00
<$6.00
<$8.00
<$10.00
<$12.00
<$14.00
>=$15.00
Net Revenue per Line per Month


NSVLTNST
Frequency
70
60
50
40
30
20
10
-
<($40.00)
<($38.00)
<($36.00)
<($34.00)
<($32.00)
<($30.00)
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<($14.00)
<($12.00)
<($10.00)
<($8.00)
<($6.00)
<($4.00)
<($2.00)
<($0.00)
<$2.00
<$4.00
<$6.00
<$8.00
<$10.00
<$12.00
<$14.00
>=$15.00
Net Revenue per Line per Month

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Unbundled Access to Network Elements	)	WC Docket No. 04-313
	)	
Review of the Section 251 Unbundling	)	
Obligations of Incumbent Local Exchange	)	CC Docket No. 01-338
Carriers	)	

DECLARATION OF WAYNE HUYARD
On Behalf of MCI, Inc.

1. My name is Wayne Huyard. I am President of U.S. Sales and Service for MCI. My business address is 22001 Loudoun County Parkway, Ashburn, Virginia, 20147.

2. I am responsible for leading MCI's sales and service efforts in the consumer and commercial markets. I am also responsible for companywide marketing. I have been with MCI for 20 years. Personnel under my direction evaluate competitive opportunities to determine the markets in which MCI will provide local residential and small business telephone service, the price at which it will do so, and the level of marketing resources it will devote to doing so. In my previous position as President of MCI Mass Markets, I provided the final approval on all decisions relating to MCI's consumer and small business initiatives.

3. MCI currently provides local exchange service to more than 3.4 million residential customers who have chosen to take advantage of competitive alternatives to

the incumbent local exchange carriers ("ILECs") and switch their service to MCI. It serves nearly all of these customers using the unbundled network element platform ("UNE-P"), a service delivery method under which MCI leases loops, switching, and shared transport in combination from the ILECs.[1]

4. MCI also serves some large business customers via UNE-P. These customers, for example a retail chain with store locations in small towns and cities across the country, generally have multiple locations in various regions of the United States, including locations outside the top MSAs. These customers are able to meet all of their telecommunications needs nationwide through MCI's "one-stop-shopping" UNE-P enabled products.

5. In addition, MCI has significant local network facilities. Since 1994, MCI has installed 123 circuit switches and 11,800 local route miles. MCI uses these facilities to provide local service to business customers in 38 states and the District of Columbia.

6. Given our extensive local facilities, MCI has thoroughly analyzed the viability of a UNE-L strategy to serve its local customer base. Any rational company would pursue opportunities to minimize its dependency on its main competitors for critical inputs. UNE-P poses this type of dependency, which is why MCI has explored - *and would welcome* - the means to serve as much of its residential customer base as is operationally and economically feasible via UNE-L.

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[1] MCI attempted to offer local service via resale shortly after the passage of the Telecommunications Act of 1996 but stopped these efforts and worked to convert the customers to UNE-P, because resale proved to be unprofitable. Nevertheless, a few legacy resale customers remain. In addition, a *de minimis* amount of residential customers were provisioned on UNE-L in 2003 and 2004 as part of a trial that MCI conducted, and some of those customers remain on UNE-L.

7. MCI conducted extensive analysis of ILEC wire centers to determine where MCI could profitably use UNE-L to serve the residential market. As a result of these analyses, MCI's Board of Directors approved more than $180 million for local facilities investment in May 2004. That investment would have been earmarked toward the network build out necessary to permit MCI to compete for residential and small business customers via UNE-L in 700 central offices around the country. For the analysis, MCI assumed forward looking improvements in the ILEC loop provisioning process and TELRIC-based hot cut non-recurring charges ("NRCs") of $10 beginning in January 2006, as well as the costs associated with accessing unbundled loops and transporting that traffic to our nearest local switch. These assumptions were important for the business case to work and reasonable based on the requirements of *Triennial Review Order*.

8. The network investment can be broken into two large categories. First, MCI's central office collocations with voice grade equipment would be augmented with additional port cards and cabling upgrades. These facilities cover approximately 13% of MCI's current residential local customer base. The next category covered building new collocation facilities and augmenting other existing collocations to be UNE-L capable. This phase would require substantially more time and expense – well over one year at a cost of over $100 million – and would still only provide coverage to an additional 33% of MCI's existing residential customer base. In the areas not covered by our expanded network investment, our analysis demonstrated that building out collocations, installing transport, and upgrading switching facilities simply made no economic sense. Thus, our